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DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

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51

20 May 1969

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Approved For Release 2003/06/11 : CIA-RDP79T00975A013700120001-6

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No. 0120/69
20 May 1969

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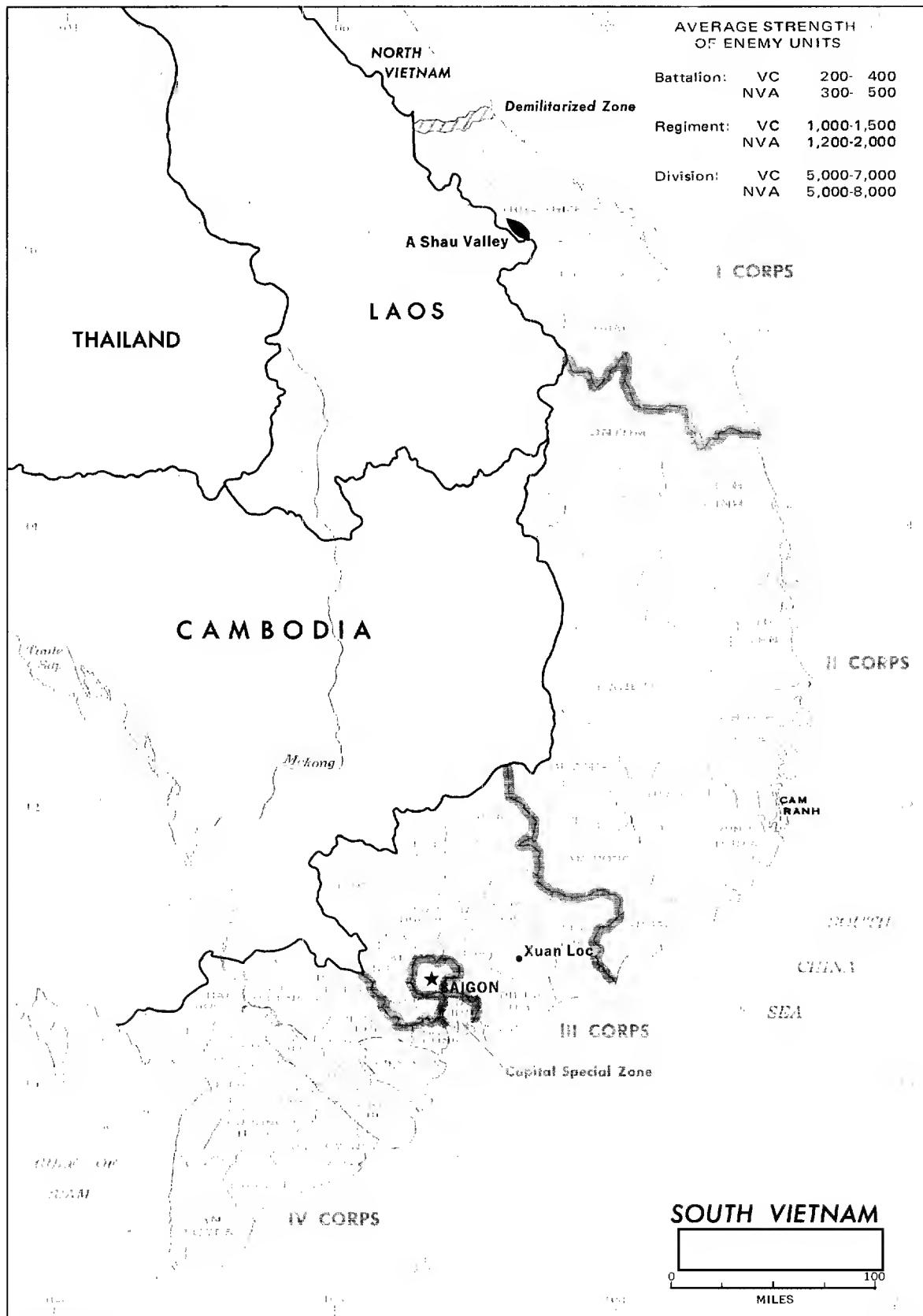
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C South Vietnam: Communist-initiated military activity remained generally light throughout South Vietnam on 18-19 May, but several large battles were reported in scattered sections of the country.

The A Shau Valley continues to be the scene of intense and bloody combat. A total of 125 enemy troops, possibly from the North Vietnamese 29th Regiment which has recently moved back into South Vietnam from Laos, were killed by US forces on 18 May. Another 125 Communist troops were killed during the course of two separate battles in Kontum Province, also on 18 May. Enemy military pressure was maintained in the Xuan Loc area on 19 May; a South Vietnamese position there was struck by 60 rounds of mortar and rocket fire. [REDACTED]

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Peru: US and European banks intend to increase substantially their lines of credit to Peru.

A group of US banks is about to sign a standby credit package that will make \$65 million available to the Peruvian Central Bank; a number of European banks probably will sign similar agreements for \$25 million soon. The Peruvian Central Bank has agreed not to draw on these credits for six months, and the total \$90 million would thus be available to meet heavy debt repayment obligations of about \$100 million next year. Two US banks, moreover, are reported to be willing to extend new loans to Peruvian businessmen.

Signature of the new credit offers would improve considerably both domestic and foreign confidence in Peru's business prospects.

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Brazil: Political tension continues to build between the government and disparate opposition forces.

A student strike is in progress in Rio de Janeiro, and police have arrested the presidents of several student councils. On 16 May student protesters took to the streets, despite police efforts to block them, to denounce the government's forced retirement of numerous popular professors. The government reportedly intends to retire another group of professors within a few days, and this may add fuel to the protests. In the northeastern city of Recife, the army's continuing repression of "subversive" students has angered many moderates who previously had supported the government.

Adding to the unsettled atmosphere is an affair in which a military court sentenced a northeastern priest to a year in prison for making "critical and offensive" statements about the armed forces. This is the first action against a priest since last December, when the government assumed broader powers. The sentence seems likely to alienate even further progressive churchmen such as Archbishop Dom Helder Camara, who is already heavily involved in defending the Recife students.

Undeterred by the signs of growing disaffection, the Costa e Silva government issued Institutional Act 10 on 16 May. The act extends and amplifies the government's power to punish persons who lose their political rights. The terms are so broad that if vigorously applied they could bar such persons from practically any gainful employment.

The government is also undertaking steps aimed at a major restructuring of the political system--specifically, measures designed to increase control over elections, politicians, and parties prior to

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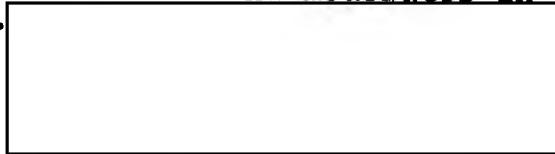
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the reopening of congress, which may be announced for 1 August.

The pattern of protest and reaction is not yet broad enough to threaten the government's stability, but it could lead to an increase in the tensions between hard-liners and moderates in the Costa e Silva regime.



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Cuba-Chile: The termination of Havana's regular propaganda broadcasts against the Frei administration suggests that Castro is attempting to improve relations with Chile's left.

On 8 May Radio Havana dropped a program that had been beamed to Chile six times weekly since March 1966. The program, which was sharply critical of Frei and the Christian Democratic Party, ended without explanation and was replaced by a newscast.

A left-wing Christian Democrat senator who visited Cuba in April may have influenced Havana to end the program. Castro probably looks favorably on the efforts by leftist members of the party to reorient it and to promote re-establishment of diplomatic relations between Chile and Cuba. The move may be another sign of Havana's reappraisal of the aggressive policies of 1966-67, and of an interest in presenting a more respectable image in Latin America.

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Turkey: [An attempt to restore full political rights to individuals ousted by the military coup nine years ago has created a substantial threat to political stability.]

[A government-sponsored bill to amend the constitution to permit full amnesty for former political prisoners, including former president Bayar, has become the subject of widespread and heated debate in both political and military circles, and has revived the long-standing schism between the two.]

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[President Sunay,]

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25X1 [President Sunay,] has publicly claimed in a radio address that there is no need for a change in the constitution at this time. There is also speculation that Sunay may try to forestall the Senate vote on the measure by dissolving Parliament and ordering new elections.]

[Major opposition leader Ismet Inonu forced the issue ten days ago when he publicly announced his party's support for a move to restore the political rights of former Democrats. Inonu probably hoped to be able to drive a new wedge between present government leaders and the military, and thus increase the chances of his own Republican Peoples' Party

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coming to power with military sanction. Thus far, however, Inonu has been sharply criticized by military spokesmen for opening the controversy.]

[Prime Minister Demirel has for some time faced pressure from a pro-Bayar group within his Justice Party, the successor to the banned Democratic Party. He almost certainly initiated the bill in Parliament with great reluctance and with full knowledge of the rancor it would arouse in military circles. Having protected his position within the party, however, Demirel may now move to short-circuit final approval of the bill by the Senate rather than chance military intervention. A major exodus of senators from Ankara apparently is under way in a probable effort to prevent a quorum.]

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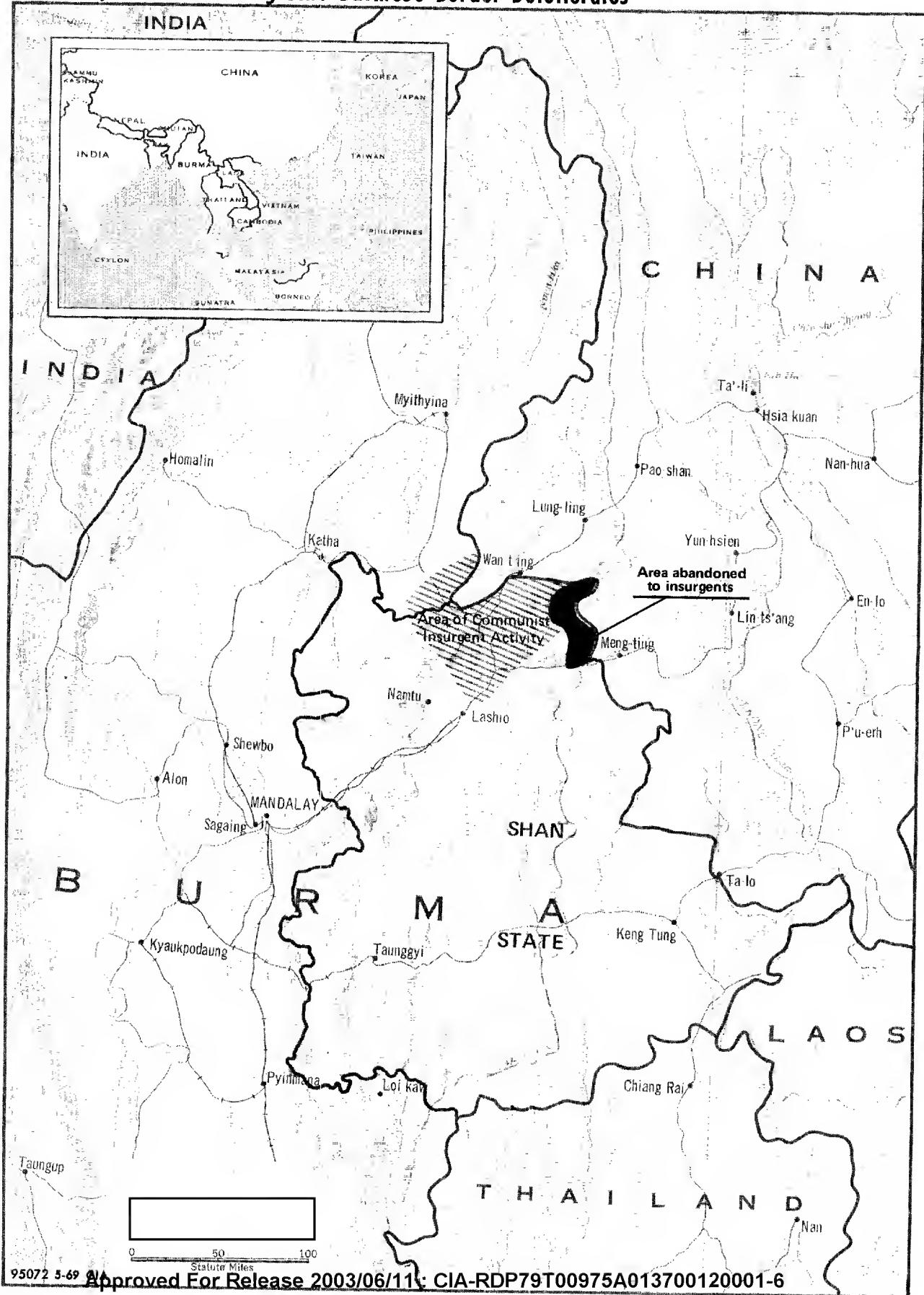


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Security Situation Along Sino-Burmese Border Deteriorates



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Burma: The security situation along the north-east Sino-Burmese border has deteriorated.

[REDACTED] Communist insurgents have forced government troops to abandon a lengthy strip along the border, where the Burmese military have sustained heavy losses since March. The Burmese Government has never exercised firm control in this area because of the army's caution about approaching the Chinese border and the difficult terrain.

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A government-owned newspaper alluded to the situation for the first time on 15 May by reprinting without comment foreign news accounts of alleged Chinese Communist incursions in northeast Burma. Such oblique presentation is often used by the heavily restricted Burmese press to inform the public of sensitive news.

[REDACTED] The Burmese Army discounts the presence of Chinese Communist troops in Burma, although it recognizes that Peking provides some training and equipment to the insurgents. Reports of the presence of Chinese Communist troops appear to stem from the fact that the rebels in Burma include ethnic Chinese who have long been resident in Burma. There may also be some rebel recruits from the Chinese side of the border.

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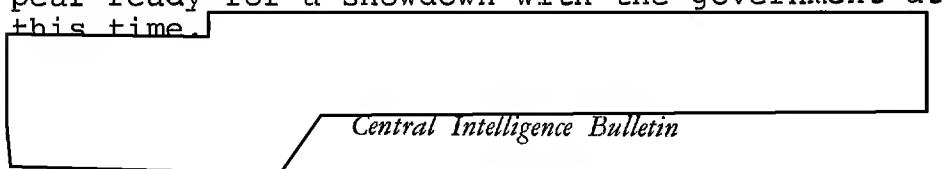
Rumania-Poland: Rumanian party leader Ceausescu arrived in Warsaw yesterday for a "friendly" visit in what is apparently another round--Ceausescu went to Moscow last week--in Bucharest's politicking in advance of the International Communist Conference. This is Ceausescu's first visit to Poland since he took over as head of the party in 1965. The Rumanians apparently want to smooth over differences they have had with the Poles on a variety of international and bilateral issues. Warsaw's irritation at Bucharest's recognition of Bonn in 1967 and at the Rumanians' negative attitude toward the occupation of Czechoslovakia has been played down recently.

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Argentina: State universities in five provincial cities closed yesterday as authorities prepared for a wave of antigovernment student demonstrations precipitated by the death of at least one student who was shot by police during a protest meeting last week. This was the first serious university fracas since soon after President Onganía came to power in 1966. His government is prepared to deal firmly with further outbursts, and the students do not appear ready for a showdown with the government at this time.



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